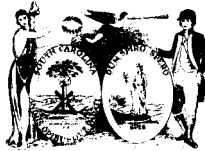


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

February 20, 2003

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Post-Acute Network
15415 Katy Freeway, Suite 800
Houston, Texas 77094

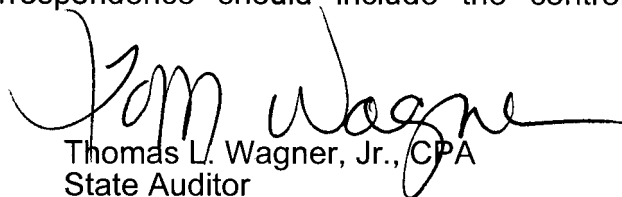
Re: AC# 3-MAE-J0 – Cypress Nursing, Inc., d/b/a Mariner Health Care of Sumter - East

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1999 through September 30, 2000. That report was used to set the rate covering the contract period beginning October 1, 2001.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**CYPRESS NURSING, INC.
D/B/A MARINER HEALTH CARE OF SUMTER - EAST
SUMTER, SOUTH CAROLINA**

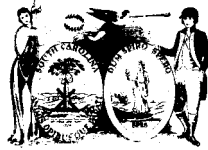
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-MAE-J0**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 2, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Cypress Nursing, Inc., d/b/a Mariner Health Care of Sumter – East, for the contract period beginning October 1, 2001, and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of Cypress Nursing, Inc., d/b/a Mariner Health Care of Sumter - East is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

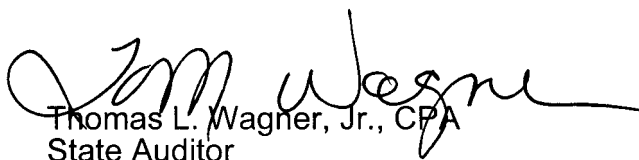
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Cypress Nursing, Inc., d/b/a Mariner Health Care of Sumter - East, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Cypress Nursing, Inc., d/b/a Mariner Health Care of Sumter - East dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
December 2, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

MARINER HEALTH CARE OF SUMTER - EAST

Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-MAE-J0

10/01/01-
09/30/02

Interim Reimbursement Rate (1)	\$86.49
Adjusted Reimbursement Rate	<u>83.79</u>
Decrease in Reimbursement Rate	\$ <u><u>2.70</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

MARINER HEALTH CARE OF SUMTER - EAST
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2001 Through September 30, 2002
AC# 3-MAE-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.27	\$58.02	
Dietary		8.37	10.74	
Laundry/Housekeeping/Maintenance		<u>7.43</u>	<u>9.23</u>	
Subtotal	<u>\$5.46</u>	54.07	77.99	\$54.07
Administration & Medical Records	<u>\$ -</u>	<u>12.62</u>	<u>11.47</u>	<u>11.47</u>
Subtotal		66.69	<u>\$89.46</u>	65.54
<u>Costs Not Subject to Standards:</u>				
Utilities		2.04		2.04
Special Services		.47		.47
Medical Supplies & Oxygen		3.57		3.57
Taxes and Insurance		1.07		1.07
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$73.85</u>		72.70
Inflation Factor (3.80%)				2.76
Cost of Capital				6.40
Cost of Capital Limitation				(.30)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				5.46
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.71)
Nurse Aide Staffing Add-On 10/01/00				<u>.48</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$83.79</u>

MARINER HEALTH CARE OF SUMTER - EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-MAE-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,449,338	\$ -	\$ 46,745 (4) 411 (4) 13,394 (5) 243 (6)	\$2,388,545
Dietary	523,774	-	794 (3) 922 (4)	522,058
Laundry	101,427	-	238 (4)	101,189
Housekeeping	235,244	-	639 (4)	234,605
Maintenance	127,027	1,119 (5)	229 (4)	127,917
Administration & Medical Records	797,416	1,186 (4)	209 (4) 10,544 (5) 529 (6)	787,320
Utilities	127,568	8 (5)	-	127,576
Special Services	29,522	39,237 (4)	39,152 (6)	29,607
Medical Supplies & Oxygen	229,453	-	5,913 (3) 930 (6)	222,610
Taxes and Insurance	138,357	-	71,240 (2) 35 (5)	67,082
Legal Fees	787	-	-	787

MARINER HEALTH CARE OF SUMTER - EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-MAE-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	402,525	32,739 (7)	3,389 (1)	399,697
			<u>32,178 (5)</u>	
Subtotal	5,162,438	74,289	227,734	5,008,993
Ancillary	126,576	2,518 (6)	-	129,094
Non-Allowable	(117,964)	3,389 (1)	32,739 (7)	26,256
		71,240 (2)		
		8,970 (4)		
		55,024 (5)		
		<u>38,336 (6)</u>		
Total Operating Expenses	<u>\$5,171,050</u>	<u>\$253,766</u>	<u>\$260,473</u>	<u>\$5,164,343</u>
Total Patient Days	<u>62,407</u>	<u>-</u>	<u>-</u>	<u>62,407</u>
Total Beds	<u>176</u>			

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-MAE-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$174,035	
	Other Equity	20,415	
	Nonallowable	3,389	
	Accumulated Depreciation		\$194,450
	Cost of Capital		3,389
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	71,240	
	Taxes and Insurance		71,240
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Retained Earnings	6,707	
	Dietary		794
	Medical Supplies		5,913
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
4	Administration	1,186	
	Special Services	39,237	
	Nonallowable	8,970	
	Nursing		46,745
	Restorative		411
	Dietary		922
	Laundry		238
	Housekeeping		639
	Maintenance		229
	Medical Records		209
	To adjust fringe benefits and related allocation and reclassify salary expense to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-MAE-J0

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Maintenance	1,119	
	Utilities	8	
	Nonallowable	55,024	
	Nursing		13,394
	Administration		10,544
	Taxes and Insurance		35
	Cost of Capital		32,178
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Ancillary	2,518	
	Nonallowable	38,336	
	Restorative		243
	Administration		529
	Medical Supplies		930
	Special Services		39,152
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Cost of Capital	32,739	
	Nonallowable		32,739
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
TOTAL ADJUSTMENTS		\$454,923	\$454,923

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MARINER HEALTH CARE OF SUMTER - EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-MAE-J0

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3848</u>	<u>2.3848</u>	
Deemed Asset Value (Per Bed)	37,246	37,246	
Number of Beds	<u>88</u>	<u>88</u>	
Deemed Asset Value	3,277,648	3,277,648	
Improvements Since 1981	538,871	668,993	
Accumulated Depreciation at 9/30/00	<u>(1,355,229)</u>	<u>(1,185,999)</u>	
Deemed Depreciated Value	2,461,290	2,760,642	
Market Rate of Return	<u>.058</u>	<u>.058</u>	
Total Annual Return	142,755	160,117	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	142,755	160,117	
Depreciation Expense	61,999	64,984	
Amortization Expense	188	187	
Capital Related Income Offsets	(15,267)	(15,266)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	189,675	210,022	\$399,697
Total Patient Days (Actual)	<u>31,204</u>	<u>31,203</u>	<u>62,407</u>
Cost of Capital Per Diem	\$ <u>6.08</u>	\$ <u>6.73</u>	\$ <u>6.40</u>

MARINER HEALTH CARE OF SUMTER - EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-MAE-J0

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.13	\$2.13
Adjustment for Maximum Increase	<u>3.99</u>	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.12</u>	<u>\$6.12</u>
Reimbursable Cost of Capital Per Diem		\$6.10
Cost of Capital Per Diem		<u>6.40</u>
Cost of Capital Per Diem Limitation		\$(<u>.30</u>)

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